



**Federal Deposit Insurance Corporation**

Washington, D.C. 20434

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**DATE:** March 18, 1998

**TO:** Audit Committee

**FROM:** Stephen M. Beard, Director  
Office of Congressional Relations and Evaluations  
Office of Inspector General

Vijay Deshpande, Director  
Office of Internal Control Management

**SUBJECT:** Final Report: *Leasing and Renovation Activities*

This report presents the results of our review of the Division of Administration's (DOA) leasing and renovation activities. We conducted this review in response to a request received from the Audit Committee.

On August 25, 1997, the Office of Inspector General (OIG) issued Evaluation Report No. 97-008 entitled *Renovation of Virginia Square*. The OIG evaluation report identified several issues involving FDIC renovation activities that warranted management attention. On September 24, 1997, the OIG presented its report to the FDIC Audit Committee, which prompted the Committee to express concerns regarding:

- coordinating lease expirations with office closings, providing alternatives for leased space, controlling costs, and presenting cases to the Board with sufficient lead time, and
- information the Board of Directors receives on the total costs associated with individual leases.

The Audit Committee requested that the OIG and the Office of Internal Control Management (OICM) perform a review of DOA's leasing and renovation activities. OIG and OICM worked with DOA to respond to this request. The objectives of our review were to:

- (1) Evaluate leasing policies and procedures based on issues raised by the Audit Committee and identify any internal controls for leasing activities that may need to be strengthened,
- (2) Determine whether DOA adequately planned and coordinated lease activities, and
- (3) Evaluate DOA's current policies and procedures for tracking renovation project costs and identify any internal controls that may need to be strengthened.

## SUMMARY OF REVIEW

We determined that DOA had policy and procedures that addressed the acquisition of leased space in excess of 10,000 square feet. The field offices we visited had each developed their own procedures for leasing smaller space. DOA was also in the process of developing a *Leasing Policy Manual* (LPM), which will serve as the Corporate standard for leasing activities in Headquarters and the field. Further, DOA expected to implement in March 1998 a nationwide system--the Strategic Leasing and Insurance Management System (SLIMS)--to support the Corporation's lease administration. SLIMS was designed to automate property, lease, insurance, and payment information to enable DOA personnel to track amendments, ancillary documents, contacts, payments, payment history, and insurance requirements on a daily basis.

We found that, for the most part, DOA adequately planned and coordinated the leases we reviewed. We identified several areas within the leasing process where DOA could improve its planning and coordination efforts. In addition, DOA did not always comply with policies and procedures when procuring or extending the leases. Although DOA did not initially present in its March 1997 lease case to the Board of Directors its total cost estimates for the Dallas renovation project, DOA identified these costs in a subsequent case presented to the Board in September 1997.

Based upon our review of the policies and procedures and examination of six leases, we made recommendations in areas relating to overall planning and coordinating, Headquarters and field policy consistency, subleasing, case preparation, and use of brokers' services. We expected that many of these recommendations could be implemented through DOA's development of the LPM.

With regard to renovations, DOA used the *Facilities Design Guide* as the foundation for space design and planning. In addition, the Corporate Services Branch (CSB) issued guidelines that set forth how costs should be estimated, tracked, and reported for renovation. Further, DOA awarded a contract for a cost estimator tasked with estimating construction costs, evaluating pricing by contractors, and preparing project schedules. Nevertheless, we identified issues in this area which warranted management attention. Not all information resource management (IRM)-related costs were typically being included in renovation budgets, and DOA needed to ensure that all costs attributable to the renovation projects are being submitted, monitored, and tracked using Project Budget Reports. We also noted that the threshold for tracking field office renovations may have been too high. DOA recently reconsidered and lowered the threshold to provide more coverage of the costs associated with the renovations. Finally, we made several recommendations regarding renovations based upon the desires and concerns of client divisions.

On February 13, 1998, we provided DOA management a draft of this report for comment, and we incorporated its comments where we believed appropriate. DOA generally agreed with the facts, conclusions, and recommendations presented in the draft report. Due to the short time frames in which we requested DOA respond to the draft report, it was not feasible for DOA to provide the requisites of management decisions for each of the recommendations. On February 23, 1998, we issued our report to the Audit Committee and indicated in the report that DOA management would be providing management decisions for each of the recommendations

at a later date. The Audit Committee requested we issue a second version of the report incorporating DOA management's response and our evaluation of its adequacy. This report satisfies the Audit Committee's request.

On March 13, 1998, DOA management provided its written response to our February 23, 1998, report. DOA management agreed with the recommendations. The response, planned actions, and actions already taken provided the requisite elements of a management decision for each of the 11 recommendations. DOA's written response is included in its entirety as Appendix II of this report. Appendix III presents our assessment of management's responses to the recommendations and shows that we have a management decision for each of the 11 recommendations.

## SCOPE AND METHODOLOGY

OICM examined the current policies and procedures for leasing and renovation activities and interviewed DOA and Division of Information Resource Management (DIRM) Headquarters personnel. OICM visited Hartford, Irvine, and Dallas and interviewed DOA personnel to obtain a field perspective on these policies and procedures. OICM received feedback from DOA clients including the Division of Supervision (DOS), Division of Compliance and Consumer Affairs (DCA), Division of Finance (DOF) and the Legal Division.

The OIG performed historical analyses of lease and construction services cases with a view towards the Audit Committee's concerns, as summarized in the table below, to determine whether DOA had adequately planned and coordinated lease activities. As part of these analyses, the OIG reviewed the Boston, Irvine, 1717 H Street, 1700 and 1730 Pennsylvania Avenue, and Dallas lease-related documents and interviewed DOA personnel. The OIG also spoke with officials at the General Services Administration (GSA) and the Office of the Comptroller of the Currency (OCC) about their leasing processes.

### Summary of Audit Committee Concerns

Concerns	Irvine	Dallas	1700 Pa. Ave.	1730 Pa. Ave.	H Street	Boston
PLANNING AND COORDINATION						
Timing Between Office Closing and Lease Expiration						
Number/Adequacy of Alternatives						
Length of Time for Board Decision						
Length of Lease						
COSTS						
Cost of Improvements						
Cost of Lease						

Source: Based on concerns expressed during an Audit Committee meeting.

## **BACKGROUND**

DOA is responsible for developing policies and procedures related to leasing activities. DOA is in the process of developing the LPM which will serve as the Corporate standard for leasing activities in Headquarters and the field. DOA expects that the manual will be completed by June 30, 1998. Outlined below are the current leasing policies and procedures. A status of the Master Housing Plan Task Force and SLIMS is also presented.

### **Policy and Procedures for Leased Space Over 10,000 Square Feet**

The current leasing policy, as approved by the Board of Directors on February 6, 1996, and published in the *Federal Register* on February 13, 1996, addresses policy and procedures for the acquisition of leased space in excess of 10,000 square feet (primarily Service Centers, DOS/DCA Regional Offices and Headquarters Offices). The leasing function for these offices is centralized in Washington under DOA's Leasing and Insurance Unit (LIU) and reports directly to the DOA Associate Director, Acquisition Services Branch (ASB). The policy has the following objectives:

- (1) Strengthen controls over the leasing process by providing standard procedures, which must be followed, for the acquisition of future office space.
- (2) Ensure that offerors are treated in a fair and consistent manner by establishing standard procedures for the evaluation of proposals.
- (3) Ensure that potential landlords are subject to fitness and integrity checks prior to entering into agreements with FDIC.

The procedures delineated in the *Federal Register* include guidance for new leases, lease renewals, and lease extensions. For new leases, the procedures require the following:

- defining geographic boundaries,
- advertising,
- issuing requests for proposals,
- reviewing responses,
- touring buildings,
- issuing requests for best and final offers,
- reviewing best and final offers, and
- awarding leases.

For lease renewals, procedural guidance requires:

- contracting for market surveys,
- soliciting proposals from the current landlord,
- checking fitness and integrity, and
- conducting cost comparisons.

For lease extensions, direction is provided for long-term (over 6 months and less than 3 years) and short-term (less than 6 months) leases.

### **Policy and Procedures for Leases Less Than 10,000 Square Feet**

Leases for properties under 10,000 square feet (primarily DOS and DCA field offices) are not addressed in the *Federal Register*. DOA Regional Managers assumed responsibility for this function from DOS in September 1996, 6 months after the policy was published. Although Headquarters has not provided documented guidance for leasing space less than 10,000 square feet, it encourages sites to use the *Federal Register* as a guide. Training related to Headquarters leasing activities was provided to field staff in August 1996, and to FDIC attorneys having leasing responsibilities in October 1996. Hartford, Irvine, and Dallas, which were selected for visits, had documented standard operating procedures (SOPs) for leasing space under 10,000 square feet. Although the three offices' SOPs were similar, they were not identical. Key procedures of the SOPs included:

- establish space requirements (based on core staffing),
- procure broker services,
- select site location,
- procure architectural and engineering services,
- administer lease and rental payments,
- vacate and return space to landlord, and
- close-out lease.

### **Additional Corporate Guidance for Leasing Activities**

On January 9, 1998, the DOA Deputy Director by memorandum to DOA Regional Managers issued additional guidance for leasing activities which states, "Prior to committing corporate resources to lease space . . . it is important that the client organization(s) approve the defined scope of the project and ensure that the staffing levels represented . . . are consistent with the Strategic Plan and the approved core staffing levels."

### **Master Housing Plan Task Force Status**

In August 1997, a Master Housing Plan Task Force was established to address the long-term housing plans for the Corporation's Headquarters staff. The project is tracked and monitored as part of the Corporate Operating Plans System (COPS). The inter-divisional project members are considering various options of providing space to accommodate Headquarters staff. Options currently being examined include continuing to lease space, purchasing an existing building(s), and/or constructing an additional office tower at Virginia Square. Core staffing and the Corporation's Strategic Plan are key components of the decision making process. At the time of our review, the Task Force had intended to present its findings and recommendations to senior management by March 31, 1998.

## **Strategic Leasing and Insurance Management System Status (SLIMS)**

In March 1998, DOA is expected to implement SLIMS in Headquarters. DOA anticipates implementing SLIMS in the field by the second quarter of 1998, in conjunction with issuance of the LPM. According to the December 19, 1997, draft functional requirements, the primary purpose of SLIMS is to provide meaningful information related to the numerous commercial leases that the FDIC has entered into for office and warehouse space throughout the United States. SLIMS provides a single repository of stored information related to the varied clauses, critical dates, budget, and payment records for each FDIC lease. SLIMS will automate functions to better enable personnel to effectively track amendments, ancillary documents, contacts, payments/payment history, and insurance requirements.

## **RESULTS OF REVIEW**

**OBJECTIVE 1: To evaluate leasing policies and procedures based on issues raised by the Audit Committee and identify any internal controls for leasing activities that may need to be strengthened.**

The Audit Committee expressed concerns regarding the following issues related to leasing activities: (1) coordinating lease expiration with core staffing and the Strategic Plan, (2) number and adequacy of alternatives, (3) length of time provided for Board decisions, and (4) lease length. The evaluation focuses on determining whether these concerns are adequately addressed in current policies and procedures in order to avoid the recurrence of these concerns in future lease cases. We are aware that the LPM is to be completed by the second quarter of 1998. Because development of this manual is in process, our evaluation focuses on ensuring consideration is given to these issues as the formulation of policy and procedures continues. Outlined below is the evaluation of current leasing policies and procedures as it relates to the Audit Committee's concerns. Also presented are other issues related to strengthening internal controls for leasing activities.

### **Coordinating Lease Expiration With Core Staffing and the Strategic Plan**

The DOA Deputy Director's recent memorandum dated January 9, 1998, to DOA Regional Managers reemphasizes that the Strategic Plan and approved core staffing levels should be components of the lease decision-making process.

### **Number and Adequacy of Alternatives**

The Audit Committee expressed concerns regarding the lack of options contained in leasing cases. There were no alternatives presented in the case requesting authority to extend the leases at 1700 and 1730 Pennsylvania Avenue. For Irvine, the case presented only one alternative that

was not considered feasible given the short period of time, 1 year, of the lease extension length. We discuss the alternatives later in this report under assessment and summary of the Irvine and 1700 and 1730 Pennsylvania Avenue leases.

The current policy and procedures do not provide guidance regarding the number of alternatives to evaluate, or that should be presented in the lease cases submitted to the Board. DOA officials told us that establishing a standard number of alternatives to evaluate is not practical because the number would vary on a case-by-case basis. Headquarters' primary mechanism for generating alternatives for leased space, once the requirements have been identified and geographic boundaries defined, is advertising in the local newspaper and the local commercial real estate paper. DOA has indicated that they will utilize a real estate on-line service in the future, which will provide a broader base of alternatives. The field uses brokers as a means of identifying additional leasing options and providing negotiating leverage. DOA officials told us that Headquarters generally uses brokers solely for market surveys, and these surveys lead to leasing alternatives.

### **Length of Time Provided for Board Decisions (Appropriate Lead Time)**

There is no current policy that provides guidance for the timing of lease cases submitted to the Board. The leasing procedures should require a standard time frame for case submission to the Board, which should be a component of an overall planning process for lease cases.

### **Length of Lease**

The current policy and procedures provide general guidance for length of lease extensions, but not for the length of the original lease. Lease extensions, as discussed in the policy, are meant to provide the FDIC additional time to determine its long-term requirements and, as such, are not to be longer than 3 years. In addition, the January 9, 1998, memorandum from the DOA Deputy Director to DOA Regional Managers emphasizes that prior to committing Corporate resources to leasing activities the client organization should ensure that the staffing levels represented are consistent with the Strategic Plan and the approved core staffing levels.

There is no policy regarding development of lease term. A policy should be developed that addresses the projected Corporate need in the geographic area, and future market trends. Policy should also require the approval of the Deputy to the Chairman and Chief Operating Officer (COO) at the onset of the leasing process for any lease term in excess of the 5-year core staffing projections.

## Other Issues

### *Establish Consistent Policy and Procedures for Headquarters and the Field*

The current policy as cited in the *Federal Register* provides direction and guidance for FDIC leased properties over 10,000 square feet, but does not address guidance for properties under 10,000 square feet. The field offices have developed their own SOPs that are similar but not identical. To ensure consistency, standard Corporate guidance should be provided to the field. As an example, the SOPs in the field offices address the use of real estate brokers as a means of identifying additional leasing options and providing negotiating leverage. The use of brokers for market surveys is a practice at Headquarters.

The Master Housing Plan Task Force was formed to address Headquarters long-term housing plans and will address core staffing and the Corporation's Strategic Plan as part of the decision making process. Currently, there is no formal working group to address field long-term housing plans.

### *Provide Detailed Guidance for Cost Comparison*

The current policy and procedures as cited in the *Federal Register* require a cost comparison for lease extensions. Although general guidance is provided, additional details should be included. Cost comparison guidance should be enhanced by providing direction regarding the cost elements, such as moving expenses, associated with the estimated cost of relocating versus staying at a current location.

### *Issue Guidance Regarding Subleasing*

The current policy and procedures do not address subleasing. Vacant space can occur as the Corporation continues to downsize. Thus, from time to time, there may be the need to sublease vacant space. Guidance should be developed to address subleasing activities to ensure the Corporation addresses vacant space issues in a consistent manner.

<b>OBJECTIVE 2: To determine whether DOA adequately planned and coordinated lease activities.</b>
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The Audit Committee expressed concerns over the planning and coordinating of the Irvine and Boston leases and lease extensions for 1700 and 1730 Pennsylvania Avenue and 1717 H Street facilities. The Audit Committee also expressed concern that all costs may not have been reported to the Board of Directors in the March 1997 lease case for the Dallas renovation project. We reviewed the leasing process for the Irvine, Dallas, 1700 and 1730 Pennsylvania Avenue, 1717 H Street, and Boston offices to address specific Audit Committee concerns. We found that, for the most part, DOA adequately planned and coordinated the leasing activities for these offices, but did not always comply with policies and



procedures when procuring the leases. Although DOA did not initially present in March to the Board of Directors its total cost estimates for the Dallas renovation project, DOA subsequently presented these costs to the Board in September 1997. We identified several issues that should be addressed in the LPM. We also identified several areas within the leasing process where DOA could improve its planning and coordination efforts. Accordingly, we are recommending several measures for DOA's consideration to enhance the planning, coordination, and communications activities within the leasing operation.

## **Assessment and Summary of the Irvine Lease**

### *The extent of planning and coordinating that occurred with regard to office closing and lease expiration*

The Audit Committee's concern was that the Irvine Office's closing and the lease expiration had not been adequately planned and coordinated, resulting in FDIC leasing the space for longer than required. Other concerns included the lack of options available to FDIC other than staying at the current location, and the high cost of the lease extension at \$32.40 per square foot compared to the previous lease extension that was \$21.31 per square foot.

LIU adequately planned and coordinated the lease extension based on the information available to it at the time. FDIC was undergoing substantial organizational realignment of its offices and staffing during the period of the first lease extension and the ultimate disposition of the Irvine Office had yet to be decided. As a support office, LIU relies on the client to make the key decisions regarding FDIC's future operations. LIU officials told us that key information must be known as part of the lease procurement process: the number of people to be housed, the general office location, and the length of time the office will be needed. In this instance, LIU did not know initially whether the Irvine Office would remain open or if it closed, the timing of the closure.

As an interim step, LIU sought approval from the Board on January 18, 1996, to enter into an 18-month extension with the landlord until January 31, 1998, to provide time for the disposition of the office to be determined. On October 29, 1996, a memorandum to FDIC employees announced that the Board of Directors approved the closing of the Irvine Office during the second or third quarter of 1998.<sup>1</sup> Given this information, LIU entered into the second lease extension, dated August 28, 1997, that extended FDIC's presence at the office from February 1, 1998, to January 31, 1999. According to a DOA official, DOA typically requires 3 months for the orderly closure of an office.

### *Why LIU had no better options other than extending the current lease*

LIU's options were limited because of the economics of the short-term nature of the lease and the limitations imposed by the original lease. Relocating to another building for 1 year and the associated costs such as renovation and moving expenses would have, in all likelihood, been more costly than remaining at the current location. In our discussion with a GSA official, the

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<sup>1</sup>A November 28, 1997, memorandum announced that the office would be closing on September 26, 1998.

official confirmed that remaining at a currently leased site is typically the least expensive option. In addition to the relocation costs, FDIC would also have incurred renovation costs. Renovation costs for short-term space are similar to long-term space because DOA wants to treat employees consistently whether they are located in short-term or long-term space. Furthermore, improving market conditions in the Irvine area resulted in higher lease rates and less available space. LIU's lack of options, in part, can be traced back to the original lease, which was established by the Division of Liquidations (DOL). The original lease was executed in January 1991 when FDIC was growing and the negotiators of the lease did not adequately contemplate FDIC's eventual downsizing. The original lease did not provide FDIC the option to contract (because FDIC had expanded its space at the building), or terminate the lease (although the first extension provided a termination option). While the original lease provided the right to extend the lease, the procedures for determining the rate were not favorable for FDIC. The lease did provide FDIC the option to sublease its space with the landlord's permission. According to LIU and Legal Division officials, the lease may have been the landlord's lease or a regional lease because FDIC did not have a standard lease in 1990. An LIU official added that the DOL lease was negotiated by a broker.

The current standard lease does contain provisions for lease contraction, termination, and extension at the agreed upon terms in the original lease. The original Irvine lease may have initially contained similar clauses. Looking forward, however, the current standard lease contains each of these options as a baseline that provides assurance the options will be considered during negotiations. Nevertheless, FDIC may not obtain each of these options from its landlords because of limitations imposed by overall market conditions and by specific landlords.

#### *The cost of the lease*

LIU attempted to negotiate favorable terms with the landlord, but could not obtain them because of LIU's weakened negotiating position. The short-term lease extension required by FDIC resulted in LIU leasing the space for slightly longer than necessary, paying a higher than average rate for the market, and leasing vacant space. LIU had no leverage in negotiating with the landlord to obtain a shorter lease term or a better rate, or return unneeded space because it was not in the landlord's best interest to do so given the improved market conditions. LIU agreed to a rate of \$32.40 per square foot, which was within the market range of \$22.76 to \$35.97 for the area. LIU was unsuccessful in subleasing the space, as previously mentioned. The DOL lease did not permit FDIC to contract its leased space after it had expanded its lease space. As a result, FDIC has retained nearly all the vacant space. DOA officials told us that efforts are currently underway to sublease the vacant space.

In addition, neither the original lease nor the current standard FDIC lease contained a "reduction in services" option. Such an option would allow LIU to reduce the operating expenses paid to the landlord for vacant space. According to a LIU official, base rates are currently being used in leases. Base rates include operating expenses with escalation provisions so that a reduction in services option would have little or no effect on the base rate. LIU personnel explained the benefits of using the fully-loaded base rates as forcing the landlord to watch operating costs and thus protecting FDIC from large cost increases. Given the amount of vacant space at the Irvine

office, inclusion of a reduction in services option in the lease extension may have been an option worth considering.

## **Assessment and Summary of the Dallas Lease and Renovation Cases (Pacific Place)**

### *The need for a 10-year lease*

A DOA official explained that the following factors warranted the 10-year lease length:

- the sheer size of the office at nearly 300,000 square feet;
- the number of banks in Texas, which represents 10 percent of the total number of banks supervised by FDIC;
- FDIC's long-term presence in Dallas (since at least 1984); and
- FDIC's decision to consolidate liquidation and regional finance activities in Dallas.

The Dallas space requirements are divided between two buildings under two separate lease agreements. The buildings are one city block apart. The Pacific Place building lease is for 300,000 square feet with a 10-year term. The One Dallas Center lease is for 204,000 square feet and a 3-year term. According to DOA officials, the two leases are structured to allow the flexibility of dropping up to 41 percent of the space inventory after 3 years if staffing decreases.

FDIC's rate for the Dallas lease at \$20.04 compares favorably with market rates. Market rates range from \$20.84 to \$29.43 with an average rate of \$24.32. Given these factors, DOA's decision for a 10-year lease did not appear unreasonable. In comparison, OCC stated that 10-year leases have been used with some leases totaling 20 years after all of the extension options are exercised. OCC generally uses a 5-year standard for its leases unless other factors indicate that a longer-term lease would be more beneficial. Factors OCC considers when selecting lease length include: office size, a continued presence in an area based on a needs assessment, and advantageous economic factors such as a high-level of vacancies.

However, the Pacific Place lease limits FDIC's options to change the amount of space leased and the time period for which it is leased. While the lease does provide a 25 percent contraction clause to allow FDIC to return unneeded space to the landlord, it does not provide a termination option.

### *Presentation of expected renovation costs*

FDIC began the competitive process for obtaining a lease in Dallas during August 1996, culminating with the proposals being received on October 31, 1996, and being subsequently evaluated. According to DOA officials, Pacific Place was the only Class A space available to FDIC as a result of the competitive process and it assumed that FDIC would stay at the location given the benefits of remaining at the already FDIC-occupied building. According to DOA officials, the tenant improvement rate of \$8.50 per square foot figure for "light construction" was used in the economic analysis for comparison of alternatives as presented to the Board on

March 13, 1997. The \$8.50 figure was not meant to represent the expenditure authority for the Dallas renovation. The figure was a “standard figure” that was used to compare the Pacific Place and Republic Tower buildings to identify the least costly lease based on the relative levels of renovation needed. DOA stated that the estimate was based on the “perceived condition” of the space. In our opinion, it was reasonable for a reader of the case to misinterpret what was being presented. DOA could have more clearly stated that the \$8.50 figure was not supported by detailed cost estimation. DOA also explained that more substantial work was expected to be required before presenting the March case to the Board, but changing the \$8.50 figure was overlooked. On September 2, 1997, DOA requested the Board approve expenditure authority of \$18.55 per square foot.

The Dallas CSB had prepared some type of cost estimate, and had provided the results to Headquarters on October 30, 1996, and stated that the renovation costs would be \$8.50 per square foot. The cost estimate also stated that a number of assumptions were made so that the cost estimate could be different. We could not obtain any details to identify the extent of the analysis or the assumptions on which the analysis was based.

DOA personnel stated that the \$8.50 cost estimate was based on historical renovation costs. We discussed with a GSA official the validity of using historically-based renovation cost estimates. The official stated that the methodology is valid so long as the estimates are regularly updated. DOA officials affirmed that its historical information is updated regularly.

During our discussions, DOA officials explained the steps that have been taken to prevent a reoccurrence in the future, including the use of a cost estimator who will review each case submitted to the Board to ascertain the accuracy of the cost information presented. The cost estimator will also be responsible for updating the historical renovation costs.

#### *Alternatives to Pacific Place*

The Dallas case presented one alternative to Pacific Place, the Republic Towers building. DOA management stated that the renovations and time needed to upgrade the building did not make it a realistic option. DOA had carried out competitive lease solicitations to address its short and long term space needs in Dallas. After advertising, issuing 42 requests for proposal (RFP), and holding a bidder’s conference, DOA received six proposals. DOA determined that, like Republic Towers, the other four proposed buildings did not meet the basic criteria of the RFP.

#### **Assessment and Summary of the 1700 and 1730 Pennsylvania Avenue Leases**

*DOA’s treatment of the two leases as identical rather than as two separate leases. Is there another option, namely that FDIC lease one property for 5 years and lease the other property for 3 years with options to extend?*

On August 26, 1997, DOA presented a case to the Board of Directors requesting authorization to extend the existing leases for 1700 and 1730 Pennsylvania Avenue for an additional 5 years, through June 30, 2003. Although DOA recommended a 5-year extension for both leases, DOA

presented, for the Board of Directors' consideration, three options offered by the landlord for the two leases: (1) a 5-year extension; (2) a 3-year extension with two 1-year options; and (3) a 3-year extension with a 2-year option to be exercised in the first year. DOA included its economic analyses of the three options in the case and concluded that the five-year extension for both leases was the most cost effective option to exercise. DOA reported to the Board of Directors that FDIC would save nearly \$1.8 million by committing to a five-year term for both leases compared to the second option, and approximately \$500,000 compared to the third option.

An Audit Committee member asked why DOA was taking the same posture on both leases, and suggested a possible fourth proposal of a three-year extension, with options, for 1700 Pennsylvania and a five-year extension for 1730 Pennsylvania Avenue. A DOA official told us that there would have been no problem in mixing the options offered by the landlord, but DOA did not present such a scenario because its analysis showed that a five-year term for both leases was the best economic approach to take. Further, there was no evidence that DOA treated the cases identically because the options available could be mixed-and-matched as desired by the Board.

DOA's case included an attached schedule showing a comparison of current and proposed rates for each of the two leases and the cost premiums for the two leases combined. Although the cost data was included in the case, DOA could have presented this information in the form of additional alternatives available for each lease extension. For example, DOA's case could have included the fourth proposal suggested by an Audit Committee member as well as any other combination of the options proposed by the landlord for each of the leases. We applied the cost data included in the case to the Audit Committee member's fourth proposal. We determined that FDIC would have paid a premium of \$745,249 for a three-year extension with two one-year options, or a premium of \$231,090 for a three-year extension with a two-year option exercised in the first year. DOA could have presented this alternative to the Board of Directors to illustrate the cost premium for this arrangement compared to the total \$1.8 million and \$500,000 premiums reported for the second and third options for both leases.

The Associate Director, ASB, told us that the new policies and procedures manual for leasing will include a provision that requires cases to include appropriate and pertinent information related to negotiation activities and alternatives and options available. This type of provision should help ensure that the Board of Directors is provided the information needed to make sound business decisions on leasing activities and expenditures.

### **Assessment and Summary of the 1717 H Street Lease**

*DOA did not give the Board of Directors enough time to make a decision related to extending the 1717 H Street lease. The lease was scheduled to expire on August 31, 1997. DOA presented its case to extend the lease on July 1, 1997.*

In its July 1, 1997, case to the Board of Directors, DOA requested authorization to extend the lease at 1717 H Street for an additional 3 years. The lease was scheduled to expire August 31,

1997, less than 2 months following the case presentation to the Board of Directors. An Audit Committee member asked why DOA did not present the case to the Board of Directors earlier.

The DOA official responsible for negotiation activities for the H Street lease told us that a case was prepared in February 1997, 6 months prior to lease expiration, to request a 2-year extension. Following the case preparation, senior management expressed a need for a contraction provision to be incorporated in the lease extension agreement. DOA asked the landlord for a contraction provision, but, in March 1997, the landlord responded that it was not willing to grant the provision given the short term of the extension. During this timeframe, DOA revisited the core staffing numbers and determined that a 3-year extension would be more appropriate considering the delays encountered in the Goodwill litigation being handled by the Legal Division in the 1717 H Street facility.

DOA also devoted time to determining current core staffing numbers for FDIC staff and contractor staff to be located at 1717 H Street. LIU staff were trying to obtain good estimates of staffing requirements for 1717 H Street while the Corporation was in the midst of its annual core staffing update exercise. A DOA official told us that it seemed appropriate to obtain the best staffing numbers possible, given the fact that DOA had already determined: there was no economic or good business incentive to move from 1717 H Street, the negotiated rental rates were flat and compared favorably with market rates, and the space was needed. Nevertheless, DOA's efforts to present the most current staffing information resulted in the case being delivered to the Board of Directors with less than 2 months until lease expiration.

DOA does not have a policy that establishes a time frame in which lease cases should be presented before the Board of Directors. However, the Associate Director, ASB, told us that he believes lease acquisition and extension cases should be presented to the Board of Directors 1 year in advance of the lease action being requested. The Associate Director, ASB, said that the LPM currently being developed will include guidance on time frames related to submission of cases to the Board of Directors.

## **Assessment and Summary of the Boston Case**

### *Limited amount of time provided to the Board to decide on the Boston lease*

The Boston leasing case was dated August 26, 1997, 33 business days before the current lease expired on October 12, 1997. DOA provided a chronology of the events surrounding the lease procurement process that resulted in the delay in the case submitted to the Board. According to DOA, the competition revealed that lease extension at the current location would be the most advantageous to FDIC. While pursuing the lease extension with the landlord, the building was sold with the new owner wanting to use the building for its own use. Consequently, the lease proposal was withdrawn in early July 1997. We substantiated the case information and also found that Headquarters LIU personnel and the appraiser associated with the lease transaction had no knowledge of the impending sale of the building.

The total time provided by LIU for the competitive and approval process through lease expiration on October 12, 1997, was about 15 months. LIU began advertising its space needs during November/December 1996. By early July 1997, LIU had completed the process and was prepared to recommend extending the existing lease when the landlord removed the proposal from consideration. Had the case been presented to the Board at this time, it would have had about 3½ months to consider the case and obtain other options, if desired. With the proposal withdrawn, LIU had to hurriedly recompetete to identify other space to house the Boston Office and to provide time for the Board approval process.

We discussed the Boston situation with OCC officials to determine if anything could have been done to prevent its occurrence. OCC officials stated that while leases typically contain a notification provision addressing tenant rights with regard to the sale of the leased building sale, the provision only becomes effective once the building is actually sold. In the Boston situation, such a provision would not have provided earlier notification to LIU given that the building had not yet been sold. OCC officials admitted that the situation FDIC encountered was unusual. The ASB Associate Director's intent to present the cases 1 year in advance of lease actions should ensure that more time is available for use in future instances where significant unforeseen situations arise to impede the leasing process.

## **Compliance With Policies and Procedures**

As part of our review of the five lease cases, we examined LIU's compliance with established leasing policies and procedures. Overall, we found that LIU did not always comply with the leasing policies and procedures (see Appendix I: Compliance With Leasing Policies and Procedures). We noted that LIU did not:

- limit lease extensions to 3 years for 1700 and 1730 Pennsylvania Avenue,
- contract for market surveys for the Irvine, 1700 and 1730 Pennsylvania Avenue, and H Street leases,
- advertise FDIC's space needs for the Boston Office recompetition,
- assess the fitness and integrity of the Irvine landlord for the second extension, and
- document its cost comparisons for the H Street and Pennsylvania office locations.

DOA officials provided explanations for each of the exceptions. A DOA official explained that the Board was able to approve the 5-year lease extension because it has the authority to approve lease extensions longer than the limits established by policy. The official further explained that a competition for the 1700 and 1730 Pennsylvania Avenue leases was not necessary because DOA knew of all vacant space and the market rates for the area. The official added that contracted market surveys were not necessary for H Street and 1700 and 1730 Pennsylvania Avenue because the surveys were, in effect, performed in-house. Similarly, an in-house survey was performed for Irvine. In addition, an LIU official explained that staff traveled to Boston to personally identify available properties given the limited amount of time available to identify alternatives through advertising. Also, the Irvine landlord's fitness and integrity had been assessed for the first lease extension. However, in our opinion, an oversight appears to have

occurred by not obtaining another fitness and integrity assessment. Finally, a cost comparison was not justified because no other properties were available in the vicinity.

DOA typically reported to the Board the details of the competitive process such as when advertising commenced, the number of expressions of interest received from potential landlords, and the number of proposals received. In effect, DOA illustrated compliance with its leasing policies and procedures in these cases without expressly referring to compliance. In other instances, LIU did not comply with policies and procedures, and did not disclose the noncompliance in the cases. For example, the cases for the Irvine lease extensions, H Street, and Pennsylvania Avenue did not disclose that a contracted market survey was not obtained.

In addition, DOA did not state in the case the extent of work undertaken to compare local lease rates with the proposed H Street rates, leading us to examine the adequacy of the cost comparison. The case stated that DOA compared the H Street lease rate with the Pennsylvania Avenue lease rates as a means of determining reasonableness rather than comparing the H Street rate with the market at large. As a result of a discussion with a DOA official, we found that DOA had actually done a more extensive cost comparison than merely comparing the rates of FDIC buildings. It had used staff knowledge of the local real estate market to assess the proposed H Street rate. DOA staff concluded that the H Street rate compared favorably with similarly located properties.

### **Reasonableness of the Leasing Process**

We met with officials from GSA and the OCC and discussed FDIC's leasing policies and procedures to identify any practices that significantly differed from those used by the two agencies. Based on our discussions, FDIC's leasing practices are similar to those used by them. Both work with the client to identify its leasing requirements and procure leases through a competitive process.

Nevertheless, the policies and procedures do not contain additional detail as to the planning and coordinating of lease activities. The policies and procedures do not detail the roles and responsibilities of LIU and other FDIC organizations, including the client, in performing a needs assessment. In addition, the policies and procedures do not address the use of brokers. We met with DOA field personnel and found that real estate brokers are used to aid them in identifying potential properties for lease whereas Headquarters LIU personnel do not always use brokers.

### **DOA Process for Submitting Cases to the Board of Directors**

LIU does not have an established policy as to when cases should be presented to the Board for its approval. Based on documents associated with the leases we reviewed, LIU started the competitive process about 14 months before lease expiration and provided the lease cases to the Board about 7 months after starting the process. DOA presented cases to the Board for approval about 2 months to 10 months in advance of lease expiration with the average being 6 months



beforehand. DOA officials indicated that the forthcoming policy manual will require the competitive process to be started 2 years in advance of lease expiration and cases to be presented to the Board 1 year in advance of lease expiration. Such a policy will help ensure that LIU has sufficient time to identify additional options if problems occur during the leasing process or the original recommended lease does not receive Board approval.

The current standard lease used by LIU contains certain provisions that provide FDIC flexibility with regard to leased space. For example, the standard lease contains a contraction clause that allows FDIC to return specific unneeded space, a termination clause that allows FDIC to end its lease, an expansion clause that allows FDIC to increase its leased space, and a subleasing clause that allows FDIC to reduce space by subleasing it to others. As a result of the negotiation process between LIU and the landlord, certain of these clauses may be deleted from the standard lease. Market conditions also effect the degree to which the landlord will grant FDIC the clauses. The Board should be informed regarding deletion of clauses that have an impact on FDIC's ability to adjust or terminate its leased space. We spoke with a DOA official who stated that future cases to the Board will include a "summary of negotiations" section detailing the give-and-take process. We suggest that this summary specifically state which standard lease clauses, if any, were deleted.

## **Other Issues**

Amendment four of the Irvine lease under Section I "PARTIES AND DATE" contains a handwritten date of October 25, 1995. According to Section V. "Execution," "Landlord and Tenant executed this Amendment on the date as set forth in "I. PARTIES AND DATE.'" This amendment extended the lease by 18 months at a total cost of \$6.2 million and was signed by an FDIC official. Subsequently, DOA submitted an expenditure case, dated January 18, 1996, to the Board of Directors requesting the authority to enter into the lease extension which the Board granted. We interviewed DOA officials about the timing of the amendment execution and were told that DOA would not execute the amendment before Board approval and the landlord must have added the date to the amendment. Given that the amendment was a legally binding document and obligated the Corporation for \$6.2 million, we are concerned with the lack of documentary evidence clearly showing the date the amendment was executed.

**OBJECTIVE 3: Evaluate DOA's current policies and procedures for tracking renovation project costs and identify any internal controls that may need to be strengthened.**

## **Guidelines for Renovation Projects**

CSB is responsible for providing space design and planning services, and oversight of facilities design and construction. When clients identify a need for space renovation, a request is made to the CSB staff, either in the field or at Headquarters for its assistance. The CSB staff works with

the clients to identify their space needs and develops design plans. Renovations can include demolition, construction, painting, adding security features, and cabling. The CSB staff, with the DIRM staff, works with the client to design space according to the client's needs.

The actual work to demolish and construct work areas is performed through the use of contractors. The CSB and ASB staffs work together to let contracts for these services. Contracts for renovation services, as with other contracts, are subject to the policies and procedures as established in the *Acquisition Policy Manual*.

The foundation for space design and planning is CSB's *Facilities Design Guide*. The Guide was published in March 1994 to "ensure that a consistent, cost-effective level of design and technical excellence will be maintained in each facility." The Guide presents recommended floor plans for various clients needs, including private offices, open spaces, mail and supply rooms, conference rooms, guard stations, and telephone switch rooms. It is urged that CSB staff follow the recommendations, as detailed in the Guide, to the extent possible and practicable. As the Corporation's space planning environment continues to change, the Guide needs to reflect those changes. Currently, a revised Guide is out for comment. We are recommending several changes for DOA's consideration in developing its renovation policy and procedures.

The current policy issued by the Associate Director, CSB on October 6, 1997, sets forth guidelines for estimating costs for renovation projects. The guideline lists estimated costs per square foot for costs typically incurred during a renovation. These per-square foot estimates are divided into three categories of construction depending on the magnitude of the renovation: light, medium and major. These estimates can be used to develop the total estimated cost of a renovation project and will vary by location as materials and labor costs vary by city. The guidelines have been incorporated in the current draft of the *Facilities Design Guide*.

As previously mentioned, DOA officials have established a national contract for a cost estimator who will be tasked with estimating construction costs, evaluating pricing by general contractors, developing a percentage estimate for overhead and profit of general contractors and all subcontractors, and preparing project schedules. It is anticipated that this contractor will review costs for both Headquarters and Regional Office projects. A workshop for CSB Headquarters and Regional Office staff was held on February 19, 1998, to train the staff on the services the cost estimator will provide.

Additionally, on December 8, 1997, the Associate Director, CSB, directed the Chief, Facilities Planning Unit, to track and report renovation costs for projects with estimated total costs greater than \$200,000. At the same time, the field staff was directed to implement the same procedures for their renovation projects. However, because renovation projects in the field generally cost less than \$200,000, CSB agreed to lower this threshold to \$50,000 at its February 19<sup>th</sup> workshop.

### **Totality of Costs Associated With Renovation Projects**

For renovation projects with estimated costs greater than \$200,000, the current policy, dated December 8, 1997, requires that management consider all costs associated with the project when

tracking and reporting costs. The policy also requires that CSB prepare a Project Budget Report and submit it to the program office for review. The Project Budget Report is to be updated regularly to track costs and ensure they remain within the total estimated cost as the job progresses.

As mentioned above, renovations can include demolition, construction, painting, adding security features, and cabling. However, DIRM is responsible for cabling and wiring for computers, printers, facsimile machines and telephones. Those IRM-related costs are included in the DIRM budget, but not typically included in a project budget for renovation. Although the DIRM staff at Headquarters does track IRM-related renovation costs, those costs are not incorporated in the total renovation budget by project. The other renovation costs (e.g., paint, construction, security features) are included in the DOA budget. DOA, as project manager, has the ultimate responsibility for renovation projects, including ensuring all renovation costs are presented as part of the project costs.

## **Other Issues**

Discussions with CSB clients yielded a desire to better understand the renovation process. Clients were interested in receiving more information about their roles and responsibilities and those of the DOA/CSB and DIRM staff. Clients expressed a desire to be educated enough in space design to adequately represent their divisions' interests. In particular, the clients wanted to become more involved in the planning aspects and budgetary impact of a renovation. For projects with estimated costs greater than \$200,000, current policy requires CSB to inform clients of the costs of a renovation project and floor plan options, and the timeline for project completion. As mentioned previously, the dollar threshold for reporting project information is being lowered to \$50,000. It should be noted, however, that this lack of policy has not precluded CSB from informing clients of the renovation costs and timeline in all cases.

Additionally, clients expressed how hectic move-in days were at times, particularly with fixing IRM-related problems. When clients have an IRM-related problem to be fixed, they are told to talk with one DIRM employee for telephone problems and another for computer problems. To make for a smoother move, clients suggested a DIRM staff member be on-site and responsible for addressing both telephone and computer problems.

## **MATTERS FOR FURTHER STUDY**

As part of the comparative analysis of FDIC leasing practices with other agencies, we learned that GSA has an inventory of available leases that could prove helpful in providing additional options to LIU when identifying potential lessors. DOA should consider taking advantage of that source of information when initiating its leasing processes.

A Master Housing Plan Task Force is currently looking into the long-term housing plans for the Corporation's Headquarters' staff. DOA should consider performing a similar review of its

regional housing plan to better plan and coordinate field space needs with the Strategic Plan and core staffing levels.

DOA management agreed that DOA/ASB and DOA/CSB should further study these matters.

## **CONCLUSIONS AND RECOMMENDATIONS**

DOA is in the process of revising the Corporation's policy, procedures, and guidance on securing leased space. The revised policy and procedures will be established in the LPM, scheduled to be completed by June 30, 1998. Through a review of FDIC's existing policy and procedures on leasing and the historical analysis of the five leasing cases—Irvine, Dallas, 1700 and 1730 Pennsylvania Avenue, 1717 H Street, and Boston—we identified areas within the leasing process where improvements could be made. Specifically, the Corporation's leasing policy and procedures should include provisions for: planning and coordination of lease activities; preparing cases for submission to the Board of Directors; using a standard lease with flexibility options to include a reduction in services clause; including dates with approval signatures on lease amendments; and subleasing.

We identified the following issues that need to be addressed in the LPM. Through discussions with DOA officials and a review of the outline developed for the LPM, we believe these issues will be addressed in the new policy and procedures manual.

- DOA should establish written policies and procedures for planning and coordinating the lease acquisition process, especially in relation to the Strategic Plan and core staffing.
- DOA should develop a planning phase for leasing activities to include timelines for critical dates, such as case submission to the Board of Directors.
- DOA should establish procedures for subleasing its leased space.
- DOA should establish guidelines for using brokers in its leasing acquisition process.

When the draft LPM is available for comment, we will review the manual to ensure these matters have been addressed. We recommended that the Director, DOA, take the following additional actions to strengthen the Corporation's guidance for securing leased space:

1. Implement policies and procedures that require cases submitted to the Board of Directors be standardized and include clear disclosure of conformance with established leasing policies and procedures, and explanations of any deviations from policies and procedures.
2. Include in DOA's cases to the Board of Directors significant changes to the standard lease provisions that impact the Corporation's flexibility options in securing space.
3. Develop a procedure to ensure Chief Operating Officer pre-approval of planned leases exceeding the 5-year core staffing projections at the onset of the leasing process. The

justification for a term in excess of 5 years should be included in the case for expenditure authority submitted to the Board or appropriate delegated official.

4. Develop guidance for completing the lease extension cost comparison, which evaluates the cost of staying at a current location to the estimated cost of relocating. Guidance should describe each cost element to be included and the documentation needed to support the comparison.
5. Revise the current standard lease document to include a “Reduction in Services” clause.
6. Include a provision in the LPM that requires the tenant and landlord to sign and date lease amendments at the time the lease amendment is executed.

With regard to renovations, DOA used the *Facilities Design Guide* as the foundation for space design and planning. In addition, CSB issued guidelines that set forth how costs should be estimated, tracked, and reported for renovation. Further, DOA awarded a contract for a cost estimator who will be tasked with estimating construction costs, evaluating pricing by contractors, and preparing project schedules. Nevertheless, we identified two issues in this area warranting management attention. Not all IRM-related costs are being included in renovation budgets and line item budgets are not always prepared that include all costs attributable to the renovations before projects are started. Accordingly, we recommended that the Director, DOA:

7. Ensure that all costs attributable to a renovation project, including appropriate IRM-related costs, be submitted, monitored and tracked using Project Budget Reports.
8. Define roles and responsibilities for clients, DOA staff, and DIRM staff. These roles and responsibilities should be incorporated in the revised *Facilities Design Guide*.

Finally, we made the following recommendations regarding renovations based upon the desires and concerns expressed to us by client divisions. The Director, DOA should:

9. Request that CSB, at the start of a renovation project, brief client representatives on their roles in space design and planning.
10. Work with DIRM management to have the division assign one staff member to be responsible for solving IRM-related problems for both telephones and computers during clients’ moves.
11. Provide training to appropriate employees when the *Facilities Design Guide* is issued.

## **DOA RESPONSE AND OIG/OICM EVALUATION**

On March 13, 1998, the Director, DOA, provided DOA’s written response to the February 23, 1998, report issued to the Audit Committee. The response is presented as Appendix II to this report. DOA management agreed with our recommendations. The response, planned actions,

and actions already taken provided the requisites for a management decision for all 11 recommendations. Appendix III presents management responses to our recommendations and illustrates that we have a management decision for each of the 11 recommendations.

We identified the following leasing issues which we believed would be addressed in the new policy and procedures manual:

- DOA should establish written policies and procedures for planning and coordinating the lease acquisition process, especially in relation to the Strategic Plan and core staffing.
- DOA should develop a planning phase for leasing activities to include timelines for critical dates, such as case submission to the Board of Directors.
- DOA should establish procedures for subleasing its leased space.
- DOA should establish guidelines for using brokers in its leasing acquisitions.

DOA management agreed to take steps to ensure that these issues are incorporated into the new leasing manual, which it expects to complete by June 30, 1998. DOA management stated that when the draft manual is circulated for comment, DOA will ensure that a copy of the manual is provided to OICM and OIG for comments.

**Implement policies and procedures that require cases submitted to the Board of Directors be standardized and include clear disclosure of conformance with established leasing policies and procedures, and explanations of any deviations from policies and procedures.** DOA management agreed with our recommendation. DOA management stated that DOA/ASB will incorporate into the LPM a standard format for lease cases submitted to the Board of Directors, and the standard case will include a section that provides explanations for any noted deviations from prescribed policy and procedures. DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.

**Include in DOA's cases to the Board of Directors significant changes to the standard lease provisions that impact the Corporation's flexibility options in securing space.** DOA management agreed with our recommendation, and stated that the LPM will include a requirement that, in cases submitted to the Board of Directors, DOA/ASB clearly define and delineate the options for flexibility (contraction, termination, expansion, and renewal) in the proposed lease. DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.

**Develop a procedure to ensure Chief Operating Officer pre-approval of planned leases exceeding the 5-year core staffing projections at the onset of the leasing process. The justification for a term in excess of 5 years should be included in the case for expenditure authority submitted to the Board of Directors or appropriate delegated official.** DOA management agreed with our recommendation and stated that the LPM will incorporate a requirement that the Chief Operating Officer's approval be obtained prior to the issuance of a Request for Proposal from potential landlords for lease terms that expect to exceed 5 years.

DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.

**Develop guidance for completing the lease extension cost comparison, which evaluates the cost of staying at a current location to the estimated cost of relocating. Guidance should describe each cost element to be included and the documentation needed to support the comparison.** DOA management agreed with our recommendation and will include in the LPM a recommended format for financial analyses and a provision to describe individual cost elements. DOA management also agreed to include in the LPM a requirement that the lease file contain the supporting documentation for the cost comparison. DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.

**Revise the current standard lease document to include a "Reduction in Services" clause.** DOA management agreed with our recommendation and will revise the standard lease to include a reduction in services clause. DOA management noted in its response, and we acknowledge, that inclusion of any clause in a final lease document is always subject to negotiation and may be eliminated in the final executed document. We noted during our review that the standard lease document will be included in the LPM. Thus, we expect that the changes to the standard lease will be completed upon issuance of the LPM—June 30, 1998. Together with this presumption, DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.

**Include a provision in the LPM that requires the tenant and landlord to sign and date lease amendments at the time the lease amendment is executed.** DOA management agreed with our recommendation and will modify the standard lease to include date blocks next to the landlord and FDIC signature blocks. The LPM will include a provision that requires the tenant and landlord to date all executed leases and amendments. DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.

**Ensure that all costs attributable to a renovation project, including IRM-related costs, be submitted, monitored, and tracked using Project Budget Reports.** DOA management concurred with our recommendation, and stated that for renovation projects in the past, DOA has reported all costs related to voice and data cabling as shown on space design documents. However, DOA said that DIRM has separately reported costs associated with putting connectors on the cables, connecting cables to patch panels, servers and PC workstations, and any additional hardware that is required to be installed as a direct result of the renovation project. DOA/CSB has taken steps to ensure that future project budget reports include these DIRM expenses so that management is aware of the total costs associated with a particular project. DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.

**Define roles and responsibilities for clients, DOA staff, and DIRM staff, and incorporate the roles and responsibilities in the revised *Facilities Design Guide*.** DOA management concurred with our recommendation and agreed to revise the *Facilities Design Guide* to clearly define the roles and responsibilities of DOA's clients, DOA staff, and DIRM staff. DOA

management anticipated incorporating the appropriate revisions as a supplement to the guide by September 1, 1998. DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.

**Request that the Corporate Services Branch, at the start of a renovation project, brief client representatives on their roles in space design and planning.** DOA management agreed with our recommendation and said it will continue its practice of hosting "kick-off" planning meetings at the start of renovation projects. DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.

**Work with DIRM management to have the division assign one staff member to be responsible for solving IRM-related problems for both telephones and computers during clients' moves.** DOA management agreed with our recommendation and said that DOA/CSB requested that DIRM assign a focal person on its staff to handle both voice and data problems/issues during a client's move. DOA management's response, and DOA's request that DIRM assign a focal person to handle IRM-related issues during a client's move, adequately addressed the recommendation and provided all the requisites of a management decision.

**Provide training to appropriate employees when the *Facilities Design Guide* is issued.** DOA management agreed with our recommendation. DOA/CSB will plan and schedule training for the appropriate staff when the *Facilities Design Guide* is issued at the end of March 1998. DOA management's response adequately addressed the recommendation and provided all the requisites of a management decision.





**APPENDIX II**

**APPENDIX II**

**CORPORATION RESPONSE**

**APPENDIX II**

**APPENDIX II**

**CORPORATION RESPONSE**

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**APPENDIX I I**

**APPENDIX II**

**CORPORATION RESPONSE**

